

Chapter 6: Contributions

Chapter Overview

This chapter provides information on member and employer contributions to the Washington State retirement systems. Refer to this chapter for:

- General information about retirement contributions
- Information about nontaxed and taxed contributions
- Instructions on how to become a nontaxed employer
- Procedures for calculating, reporting, and paying employer and member contributions
- Contribution rate tables for the following retirement systems:
 - Public Employees' Retirement System (PERS)
 - Teachers' Retirement System (TRS)
 - Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
 - Washington State Patrol Retirement System (WSPRS)
 - Judicial Retirement System (JRS)
 - Judges' Retirement Fund (JRF)

Refer to Chapters 7 and 8 for instructions on how to report on the monthly transmittal.

Refer to Chapter 10 for instructions on how to complete a Payment Advice form.

Retirement Contributions

How Contributions Fund the Retirement System

Each member and employer is required to contribute a set percentage of the member's monthly compensation to the retirement fund. With the exception of PERS, SERS and TRS Plan 3, contribution rates are listed on the tables at the end of this chapter. PERS, SERS and TRS Plan 3 members must select one of six rate options available.

Except for PERS, SERS and TRS Plan 3, member and employer contributions and their investment earnings fund the current and future retirement benefits of members of the retirement systems. A small percentage of the employer contribution rate pays the administrative expenses of DRS. For PERS, SERS and TRS Plan 3, the employer contributions and their investment earnings fund the defined benefit component of the retirement benefit; the defined contribution component is financed by the member's contributions and provides a tax-deferred investment program for the member.

How Contribution Rates Are Established

Member contribution rates for PERS Plan 1, TRS Plan 1, LEOFF Plan 1, and WSPRS are set in statute and will not change unless changed by law. Employer contribution rates for all plans and member rates for PERS Plan 2, TRS Plan 2, and LEOFF Plan 2 are established by the Pension Funding Council. Council members are the chair and ranking minority members of the House Appropriations and the Senate Ways and Means Committees, and the directors of DRS and OFM. Contribution rates vary for the different systems and plans.

PERS, SERS and TRS Plan 3 member rates are established by the Employee Retirement Benefits Board (ERBB). The ERBB is chaired by the Director of DRS and is composed of eight members. The eight members are appointed by the Governor as follows:

- three members representing PERS: one retired, two active;
- three members representing TRS: one retired, two active; and
- two members with experience in defined contribution plan administration.

Contributions and Retirement Benefits

All DRS plans are defined benefit plans. Vested members will receive a benefit based on their accumulated service credit and final average salary (compensation) at time of retirement.

PERS, SERS and TRS Plan 3 is a two component retirement system; i.e., defined benefit and defined contribution. Member contributions and their investment earnings (both gains and losses) will determine the amount a member receives. Member contributions have no impact to the defined benefit component of a PERS, SERS and TRS Plan 3 retirement benefit.

Member contributions and benefits are explained more fully in the member handbooks. If you have additional questions about contributions and retirement benefits, contact the appropriate retirement services unit at DRS.

Reportable Compensation

Contributions are calculated only on reportable compensation. In general, a member's gross pay earned during a payroll period is reportable compensation. The specific compensation that can be reported to DRS is defined differently by each system and plan. See Chapter 4 for information on the reportable compensation within each system and plan.

Nontaxed Contributions and Employers

Employers have been allowed to defer member retirement contributions from federal income tax since September 1, 1984 (See RCW 41.04.440-455). The taxes can be deferred because participating employers pay (or "pick up") the member's contributions to the retirement system and then recover the amount by deducting it from the member's gross pay.

Mandatory versus Optional Participation

Deferral of federal income taxes on member contributions is mandatory for some employers, optional for others. The following employers are required by state law to participate in tax deferral:

- State agencies
- School districts
- Community and technical colleges
- Universities
- Educational service districts
- The Office of the Administrator for the Courts

All other employers may choose to participate in the deferral of taxes on member contributions. Though participation is optional, you must notify DRS of your intent to begin deferral. For information about the required notification to DRS, see the section “Establishing Nontaxed Status” below.

Employer Liability

Deferring federal income taxes on member contributions entails additional financial responsibility for employers. Because contributions are based on the reported compensation, the employer must “pick up” the required member and employer contributions and pay this amount to DRS. If retroactive contributions are due, the employer is responsible for forwarding the contributions on behalf of the employee and having the employee reimburse the employer for the picked up contributions.

Establishing Nontaxed Status

If you are an employer for whom tax deferral is optional and you decide to participate, you must comply with the following requirements:

- You must treat contributions the same way for all members of a specific retirement system—deducting contributions from gross income before calculating the federal income tax liability. (An individual member may *not* choose to make required contributions on after-tax dollars.)
- If you have members enrolled in several retirement systems, you may treat contributions differently for members of each system. If you employ PERS members and LEOFF members, the PERS members may participate while the LEOFF members may not, or vice versa.
- You must notify DRS in writing of your intent to participate. The letter should reach DRS 45 days before the first day of the calendar month in which you wish to implement tax-deferred contributions. Your letter should include:
 - the name and reporting group number of all systems affected;
 - the name of the person in your organization whom DRS should contact if more information is necessary;
 - the month and year that the deferred status is to begin; and